



Agency Board Meeting 27 July 2021

Board Report Number: SEPA 24/21

Audit Committee's Annual Report to the Board 2020-2021

Summary:	This is the thirteenth annual report on the workings of the Audit Committee. The report covers the activity of the Audit Committee for the financial year 2020-2021. The purpose of this report is to inform the Agency Board of the activities of the Audit Committee and provide assurance to the Agency Board that the internal control and risk management systems are fit for purpose.
Risks:	N/A
Resource and Staffing Implications:	N/A
Equalities:	N/A
Environmental and Carbon Impact:	N/A
Purpose and audience of the report:	For information Agency Board, Scottish Government and public
Report Author:	Nick Martin, Chair of the Audit Committee
Appendices:	Audit Committee Annual Report 2020-2021

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1. Introduction

The Audit and Risk Assurance Committee Handbook (HM Treasury 2013; updated March 2016) sets out best practice for committees to provide an Annual Report which summarises work undertaken in the last year and the how responsibilities have been discharged. It was revised by the Scottish Government Audit and Assurance Handbook (March 2018) which included minor amendments as well as increased responsibilities for the audit committee to clearly set out its assurance framework and to understand the various sources of assurance received. The Handbook sets out five good practice principles for Audit and Risk Assurance Committees:

1. Membership, independence, objectivity and understanding
2. Skills
3. The role of the Audit and Risk Assurance Committee
4. Scope of work
5. Communication and reporting

As Chair of the Audit Committee, I have assessed the activities of the Audit Committee during the financial year 2020-2021 against the good practice principles outlined in the Handbook. I was a member of the Audit Committee during the entire period of 2020-2021.

Reflecting on the activities of the Audit Committee during the financial year 2020-2021 I would like to thank the members of the Committee for their diligence in supporting the Board and the Accountable Officer by reviewing the reliability of assurances on governance, risk management and financial control.

It is important to note that SEPA was the victim of a significant cyber attack on 24 December 2020. This resulted in major disruption to information flow to the Committee and Board as well as to planned audit activity during the period of January – March 2021.

I would like to acknowledge the support provided to the Audit Committee by the Clerk to the Board, the Executive Support Team and the Business Strategy Team.

Nick Martin
Chair of the Audit Committee
June 2021

2. Committee Information

2.1 Constitution of the Committee

- 2.1.1 The Audit Committee currently has five non-executive members.
- 2.1.2 The Committee is attended by SEPA's Accountable Officer Terry A'Hearn (also Chief Executive), the Chief Officer Finance and the Clerk to the Board. The Chair of the Board and other senior staff including the Head of Governance attend as required. (Prior to 2020, the Chair of the Board as well as the Chief Officer Performance and Innovation attended all meetings.) Following the cyber attack on Christmas Eve 2020 additional Board members have attended Committee meetings as required. SEPA's internal and external auditors also attend and are given the opportunity to speak confidentially to the Committee members. During 2020-21 the Audit Committee agreed that the two private sessions per annum with the internal auditor, would be replaced by an annual session, noting the practice of the Committee Chair to meet in private with the internal auditor ahead of each Audit Committee meeting. The Audit Committee also sat privately for part of the meetings as appropriate during 2020-2021.
- 2.1.3 The Audit Committee met virtually on four planned occasions during 2020-21 and a full list of members and attendance at Committee meetings for 2020-21 is attached in Appendix 1. There was an extra meeting focusing on Performance Measures on 16 December 2020. Following the cyber attack an extra meeting was held on 16 February 2021. The Chair of the Audit Committee attended regular update meetings with the Chair and with the Deputy Chair in respect of the cyber attack between January and March 2021. Following the cyber attack the Committee Chair also met regularly with the Chief Officer Finance and the Head of Finance regarding the adequacy of controls and recovery measures in place.
- 2.1.4 The Audit Committee had a workshop on 7 May 2020 and a workshop has been built-in to the Board calendar annually.
- 2.1.5 The Committee was established by SEPA in accordance with powers granted under Schedule 6 of the Environment Act 1995. Committee business is conducted in accordance with the Standing Orders which were approved by the Agency Board on 24 May 2016.
- 2.1.6 The skills required for the Committee are reviewed as part of the skills matrix for the Agency Board. The current membership to the Committee brings a good range of skills and experience in relation to governance, risk and control that effectively fulfils the role of the Committee.

2.2 Duties of the Committee

- 2.2.1 The purpose of the Audit Committee is to monitor and review risk, control and corporate governance; acting independently and objectively. The Committee reports to the Agency Board and its programme of work complements the conduct of internal and external audit and the process of preparing and approving the annual accounts.
- 2.2.2 The Terms of Reference for the Audit Committee as approved by the Agency Board on 20 February 2018 outlined in more detail the functions of the Committee including internal and external audit, risk management, whistleblowing, best value and code of conduct. The terms of reference were altered by the Agency Board on 18 February 2020 in respect of the size of the Committee and are available on SEPA's [website](#).

- 2.2.3 The Audit Committee can seek independent external advice if it considers it necessary to discharge its duties.

2.3 Performance of the Committee

- 2.3.1 The development of members of the Audit Committee is assessed as part of the appraisal process for members of the Agency Board and subsequently considered by the Chair of the Audit Committee to ensure the availability of the skills necessary for the Committee to be effective.
- 2.3.2 During 2020-2021, members of the Audit Committee participated in a number of Board seminars that enhanced their knowledge of the Agency's activities. These covered a broad range of subject matters including, regulatory resilience – regulating in COVID, COVID 19 enforcement response, Future Issues, COVID Impact – response and recovery, River Basin management Planning, Board Effectiveness, COVID 19 – lessons learnt, Safe SEPA, and MSP Research. Members of the Audit Committee also attended external conferences and events virtually and worked with staff as 'board buddies' to provide advice and guidance on specific subject matters.
- 2.3.3 The Audit Committee members received audit reports on a wide range of subject matters including: budget management, flood forecasting, SEPA management response to COVID, whistleblowing and Health & Safety. The Audit Committee worked closely with the Agency Board with the aim of ensuring that both fulfil their roles, responsibilities and accountabilities. During 2020 the Safe SEPA digest was presented quarterly to the Agency Board for noting following Audit Committee meetings. Following the cyber attack Safe SEPA at Board updates were provided on an ad hoc basis and at the start of every Agency Board meeting.
- 2.3.4 As noted, SEPA was subject to a significant cyber attack on 24 December 2020 which severely impacted the ability of the organisation to access its corporate and operational systems and associated data. The recovery process necessitated changes in the internal control framework, and the loss of data and systems access resulted in limitations on financial and performance information provided to the Board. Through the additional scrutiny referenced above, the Audit Committee is of the view that key aspects of governance have been maintained.
- 2.3.5 SEPA commissioned a review of the cyber attack involving NCC Group, Scottish Business Resilience Centre, Azets and Police Scotland. The Audit Committee was engaged in determining the terms of reference for the work of SBRC and Azets and the Committee Chair met with the Chief Executive of SBRC and relevant partners of Azets ahead of their appointment to conduct this review.

3.1 Audit Activity – Internal

- 3.1.1 The Audit Committee is responsible for recommending to the Accountable Officer the appointment and remuneration of internal auditors.
- 3.1.2 The internal auditors provide assurance on the effectiveness of SEPA's internal control systems and the adequacy of these systems to manage business risk and safeguard SEPA's assets. With audits undertaken during the reporting period, the internal auditors have also provided 'value for money' recommendations to help SEPA improve key areas of its work, seeking to increase effectiveness and efficiency, and helping to embed a culture of continuous improvement.

- 3.1.3 This service is provided by Azets (formerly known as Scott-Moncrieff) working under an initial three-year contact from 2019-2022 – extendable for up to two years.
- 3.1.4 The original budget was 90 days and £57,763. After COVID it was reduced to 71.5 days and £55,003. Due to the cyber attack, actual expenditure was £49,157 (current best estimate from our records) on 71.5 days
- 3.1.5 The Internal Audit activity carried out in 2020-2021 is detailed in Appendix 2.
- 3.1.6 A draft internal audit plan for 2021-2022 from Azets showing 90 audit days went to the Audit Committee in December 2020. Associated costs are not calculated until the final plan is produced. As a result of the cyber attack disruption, it was agreed at the March 2021 Committee meeting that we would proceed with a flexible rolling plan to be agreed on a quarter by quarter basis and contained within Azets' quarterly progress report. So far in 2021-2022 52 of the 90 days have been allocated. Azets have been assigned a budget of £55,000 for 2021-2022.
- 3.1.7 A summary of the draft plan for 2021-2022 is provided in Appendix 3.

3.2 Audit Activity - External

- 3.2.1 Under the Public Finance and Accountability (Scotland) Act 2000, SEPA's auditors are appointed by Audit Scotland on behalf of the Auditor General. Grant Thornton was appointed as SEPA's auditor for the financial year ending 2012-2021. The external audit fees for the year have still to be finalised and will be dependent on the additional work that the external auditors will need to undertake as a result of the cyber attack. The auditors are proposing an increase in fees from £55,000 to £85,000 in respect of the statutory audit for 2020-2021.
- 3.2.2 External audit provides an independent audit opinion on the financial statements as to whether:
 - i. they give a true and fair view
 - ii. they have been prepared properly in accordance with relevant legislation and standards
 - iii. they are consistent with the wider information contained in the Annual Report e.g. the Performance Report and Accountability Report
 - iv. they reflect regularity of expenditure
 - v. audited parts of the remuneration and staff report have been prepared in accordance with applicable guidance.
- 3.2.3 As part of their wider role they also undertake work on the following and report to SEPA and the Auditor General for Scotland:
 - i. Financial sustainability
 - ii. Financial management
 - iii. Governance and Transparency
 - iv. Value for Money
- 3.2.4 In respect of financial year 2019-2020, the external auditors reported to the Audit Committee in June 2020 and subsequently signed an unqualified audit report. In respect of 2020-21 the cyber attack has impacted on the planned work and

timescales including the submission to the Committee of the external audit plan. Grant Thornton are planning to conduct the audit remotely starting in September, with pre work having already commenced, with a view to reporting to the Audit Committee and Board at a special meeting at the start of November 2021 .

- 3.2.5 The audit approach is risk based and proportionate. It is undertaken in accordance with the relevant international auditing standards and the Audit Scotland code of practice 2016.

3.3 Risk Management

- 3.3.1 SEPA has a framework for the management of risk which aims to minimise the likelihood and effect of risks to SEPA. This includes the identification and assessment of risk at corporate level but also through risk registers held in each portfolio and for corporate programmes and projects.
- 3.3.2 When formulating the strategic and annual internal audit plans the Audit Committee and the Internal Auditors have taken into consideration the risks on the corporate risk register. Relevant risks are referenced in the terms of reference for the scope of each internal audit.
- 3.3.3 The Audit Committee formally reviewed the risk process and the corporate risk register in September 2020. An additional review to incorporate COVID considerations into the risks had taken place in June 2020. A review planned for March 2021 was delayed due to the cyber attack.
- 3.3.4 The Audit Committee will from time to time draw the attention of the Agency Board to risks of concern. The Board reviews existing risks annually and holds a workshop on risk once a year. The review to incorporate COVID considerations into the risks went to the Board in July 2020.

3.4 Audit Committee Outcomes and Recommendations in 2020/2021

- 3.4.1 The Internal Audits undertaken in 2020-2021 (detailed in Appendix 2) resulted in six findings, from the five audits, which the Audit Committee has discussed. The Audit Committee has also given consideration to the adequacy of management's responses and to the progress of the actions taken as a result of the audit findings.
- 3.4.2 During the year the Audit Committee received additional reports including in relation to a cyber risk report, aquaculture application reporting, a Safe SEPA case study, cyber attack updates and the cyber investigation review documentation including the forensic NCC group report.

Appendix 1

Member attendance at Audit Committee Meetings in year 2020/2021	
Member	Number of meetings attended
N Martin (Chair)	4(out of possible 4)
N Gordon	4(out of possible 4)
M Hill	4(out of possible 4)
M Francis	4(out of possible 4)
H Kohli	4(out of possible 4)

Appendix 2

Summary of Annual Internal Audit Plan and Fees for 2020-2021

Azets

The total planned audit days for 2020-2021 is 90 days, this is broken down as follows:

Internal audit area	Planned Days	Actual Days	Comments
Budget Management	10	10	
Flood forecasting and incident management	10	10	
Whistleblowing	8	8	
Health and Safety: Return to onsite working	8	8	
Review of management response to Covid19	10	10	
Follow-up	8	0	
Audit Management and meetings	16	17.5	
Contingency days	0	8	Used to provide SEPA with documentation held within Azets files as evidence from previous audits
Total	90	71.5	Removed Environmental events; sector and violence and aggression incidents – added response to Covid 19.

The budget and actual costs for the year 2020-2021 (excluding VAT) were:

	Total budget	Total paid (estimate)
Audit and management activity	£55,003	£49,157.50
Expenses	£0	£0
Total (excluding VAT)	£55,003	£49,157.50

Appendix 3

Summary of draft Annual Internal Audit Plan and Fees for 2021-2022

Azets

The total planned audit days for 2021-2022 is 90 days, this is broken down as follows:

Internal audit area	Planned Days
SEPA's arrangements for Covid Recovery	10
Regulatory Position statements	8
Data Breach	10
Audits TBC (rolling flexible plan)	38
Follow-up	8
Audit Management and meetings	16
Contingency days	0
Total	90

The budget costs for the year 2020-2021 (excluding VAT) has been agreed as not exceeding £55,000.